

CALIFORNIA FRANCHISE TAX BOARD

Legal Ruling No. 114

June 20, 1958

PRODUCTION CREDIT ASSOCIATIONS: INTEREST ON GOVERNMENT BONDS

Syllabus:

Production credit associations chartered under the Farm Credit Act of 1933 are taxable upon interest received on federal securities.

Taxpayer, production credit associations, were chartered under the Farm Credit Act of 1933 for the purpose of making farm loans to members. Taxpayers were originally tax exempt as federal instrumentalities. However, after the federal stock was retired and the associations became fully member-owned, they were deemed to be financial corporations and permitted a deduction for business done with members under section 24405. Since all business was done with members they have been liable for the minimum tax only. Taxpayers also receive income from federal securities. Advice is requested whether taxpayers are taxable upon the interest received on federal securities.

Section 24272 specifically includes interest from federal bonds in the gross income of banks and financial corporations. Since production credit associations are not exempt under Chapter 4 of the Bank and Corporation Tax Law, they are taxable to the extent of their entire income in the absence of some other provision in the law conferring immunity. Interest from loans to members is exempt under section 24405, but no immunity is provided for interest from federal bonds and, consequently, such income is includible in their gross income and taxable at the current financial rate.